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SUBJECT: PART TWO OF TWO: YEMEN'S 2008 INVESTMENT CLIMATE
STATEMENT

REF: A. SECSTATE 158802

[1](#)B. SANAA 00087

[1](#)1. SUMMARY: In response to reftel A, part two of Yemen's
submission for the 2008 Investment Climate Statement follows.

This second section covers protection of property rights,
transparency of the regulatory system, efficient capital
markets and portfolio investment, political violence,
corruption, bilateral investment agreements, OPIC and other
investment insurance programs, labor, foreign-trade
zones/free ports, foreign direct investment statistics, and
web resources. END SUMMARY

[1](#)2. Begin text of second section of Investment Climate
Statement.

PROTECTION OF PROPERTY RIGHTS

Yemen has a record of inadequate protection of intellectual
property rights (IPR), including patents, trademarks,
designs, and copyrights. In late 2004, the Cabinet approved
the Berne Convention for the Protection of Literary and
Artistic Works, as well as the International Agreement on
Protecting Intellectual Property Rights. Parliament has yet
to ratify these agreements. Yemen has yet to accede to any
international IPR conventions and its IPR Law number 19 of
1994 is not TRIPS compliant. Yemen's Ministry of Industry
and Trade drafted a new patents law; trademark law, and a
design and copyrights law, pending final adjustments the laws
will be sent to the Cabinet and later to Parliament for final
approval. In continuing efforts, the Ministry of Culture and
Tourism drafted the Related Rights Law, which awaits
Parliament's approval. In March 1999, Yemen became a member
of the World Intellectual Property Organization (WIPO) and is
now revising its laws with WIPO guidance. Yemen's
application to join the World Trade Organization (WTO) was
approved in July 2000 and the country gained observer status
in 2002. Yemen held its first working party meeting for WTO
accession in November 2004 and held its second meeting in
[1](#)2005. As of December 2007, no IPR laws have been passed in
Yemen, including the draft patents, trademark, design and
copyrights laws.

In April 2001, the Yemen Appeals Court ruled in favor of a US
company in a case involving infringement of the US company's
trademark. The company producing the infringed products
subsequently appealed the decision. In August 2003, the

Supreme Court rejected the appeal and ordered it to cease production and destroy the infringed trademark. However, this ruling has not been enforced.

TRANSPARENCY OF REGULATORY SYSTEM

Implementation and enforcement of Yemen's environmental protection regulations and labor laws are inadequate and non-transparent. Health and safety standards are rudimentary and not enforced. Customs tariff regulations and tax laws remain inconsistent and smuggling is common, but the government has taken steps in recent years to standardize the process with ASYCUDA systems and WTO-compliant valuation methods.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

In the 1990s Yemen's banking system suffered from a large volume of non-performing loans, inadequate loan provisioning, low bank capitalization, and weak enforcement of prudential standards. Under a 1997 World Bank-sponsored financial sector reform program, the government took actions to address these problems. A bank reform law was passed in 1998 to update, strengthen, and regulate the industry. By 2000, the Central Bank of Yemen (CBY) had circulated strict regulations pertaining to credit risk management, liquidity, insider lending, foreign exchange exposure, financial leasing and external auditors. Banks are required to reach a capital adequacy ratio of eight percent and meet new classification and provisioning standards for loan portfolios and most comply. Nevertheless, commercial banks still suffer from

extremely low capitalization rates and are essentially owned by large trading families who establish the bank to service their own business needs.

In 2005, the Cabinet of Ministers restructured the Agricultural Cooperative Credit Bank into the Rural Development Bank and raised its working capital to 32 million USD. The new bank aims to augment the state's efforts in the local rural development.

Private sector lending is constrained by a lack of judicial recourse to recover bad loans. To correct this weakness, a steering committee produced a series of reform recommendations in 1999. Among the recommendations was the establishment of special loan recovery courts. The recommendations have not been implemented.

In 1999, under the WB/IMF's financial sector reform effort, the government announced the merger of four majority-government-share banks with an eye toward privatizing the merged entity. In 2004, the press speculated that the National Bank of Yemen was solvent and would be part of the merged entity. The Yemen Bank for Reconstruction and Development was also restructured and likely to be part of the privatized bank. The two remaining specialized banks, housing and agriculture, were also restructured but are not healthy enough to be merged with the others. At present, the merger has not moved forward on any of the four government-owned or majority government-share banks.

In June 2000, the president signed the Central Bank Law Number 14 granting the CBY greater independence. Its mandate is to focus on price stability, limit public sector financing to emergency loans, adopt its own monetary and exchange rate policies, and enforce greater commercial bank accountability.

The CBY is authorized to conduct inspections of all bank implementation provisioning and capital increase schedules, and it enforces penalties and corrective measures. In 2003, Parliament passed a Money Laundering Law, which the CBY has begun to implement and enforce.

Inter-bank activities are limited, and there are no equity or

bond markets. In the recent past, the government hoped to establish a stock market in Yemen to promote the government's private sector-led growth strategy. However, the consensus of most Yemeni and foreign observers is that the country currently lacks the expertise to establish a stock market, and there are not sufficient numbers of Yemeni investors to sustain an active stock market. The CBY began offering treasury bills in December 1995. Commercial banks purchased a large share of the bills, investing up to 30 percent of their assets. The interest rate on T-bills was gradually reduced from a high of 23 percent in 1999 to about 13 percent in 2006 in order to encourage investment lending.

POLITICAL VIOLENCE

Yemen faces recurring problems with political and tribal violence. Yemen has suffered from a number of terrorist attacks since 2000, including the October 2000 attack on the USS Cole in Aden harbor, in which 17 US servicemen and women were killed, and the October 2002 bombing of a French oil tanker (the M/V Limburg) off the coast of al-Mukallah. In January 2006, 23 convicted terrorists managed to escape from the Political Security Organization's prison in Sanaa. According to Yemeni and U.S. government sources, some of the escaped terrorists were behind the attacks on the USS Cole and the M/V Limburg. On September 15, 2006 before the Presidential Elections, two attacks were carried out on oil installations. The first involved two trucks carrying explosives, which detonated at the Canadian Nexen coastal oil pumping facility at Ash Shahir in the eastern Yemeni governorate of Hadramawt, resulting in the deaths of one local guard, and the injuries of two others. The second attack occurred at the Safer oil pumping facility in Mareb, where two trucks carrying explosives detonated. On July 2, 2007, suspected al-Qa'ida operatives carried out a vehicle-borne explosive device attack on tourists at the Belquis Temple in Mareb, which resulted in the deaths of eight Spanish tourists and two Yemenis. The Republic of Yemen Government and the United States cooperate closely on counter-terrorism.

One incident of random violence in Yemen occurred on December 5, 2006, a lone gunman opened fire outside the U.S. Embassy compound during the early morning hours. The assailant, wounded by host-nation security personnel and subsequently arrested, was the sole casualty. There was no indication the assailant was part of a terrorist group.

Yemen continues to be plagued by tribal violence. Kidnappings have traditionally been seen as a means for tribes to pressure the government to accede to their demands, such as development projects or improved services. Abductions have generally declined over the past seven years in the wake of government crackdown. In December 2005, however, a former German diplomat and his family were kidnapped and released unharmed several days later. Shortly thereafter, four Italian tourists were kidnapped by a tribe in the Mareb region. The hostages were released after several days following extensive negotiations and a successful rescue operation by the Yemeni government. Earlier in the year, two Spanish tourists and representatives of UNICEF were also kidnapped. The last incident involving Americans came in December 2002, when three American doctors were killed near the city of Ibb. The perpetrator was caught, convicted and sentenced to death. The sentence was carried out in February 2006. The government of Yemen has sent strong signals that it will no longer tolerate kidnapping.

Some tribal elements hijack automobiles or other expensive equipment owned by foreign companies as means to pressure the government to share wealth with local tribes or resolve tribal disputes. Tribal attacks occur most frequently in areas of oil and mineral extraction, including the outlying governorates of Mareb and Shabwa. Attacks on oil pipelines

and vehicles have been commonplace and 2007 was no exception.

The main motive behind the attacks is that some tribes in these regions claim they are not getting their fair share of the wealth or jobs. Investors in such ventures should be sensitive to the need to build community relations. The provision of community-based services, such as healthcare and education contribute to protecting investments in isolated areas.

Since 2004, the government has periodically been involved in armed conflict with rebels in the northern Sa'ada governorate, originally led by anti-American Shiite cleric Al-Houthi, who was killed in August of 2005. In early 2006, the government reached a cease-fire with rebels. Since January 2007, the Government of Yemen has been battling al-Houthi rebels in and around the northern governorate of Sa'ada. While foreigners have not been targeted, hundreds of soldiers and civilians have been killed in the ongoing violence.

----- CORRUPTION -----

In 2007, Yemen ranked 131st out of 179 countries and territories on Transparency International's corruption perception index. One of the poorest countries in the world with a hugely overstuffed and underpaid civil service, Yemen has a significant and widely acknowledged corruption problem.

Illicit activities include soliciting and paying bribes to facilitate or obstruct projects, leveraging dispute settlements, skewing taxation and customs tariff augmentations, and engaging in family or tribal nepotism. The government recognizes that it must enact civil service and administrative reforms to create new disincentives to corruption, but progress has been slow. In 2003, a new Minister of Civil Service was appointed who initiated several programs to improve the civil service. In September 2004, the Cabinet approved the United Nations' Convention combating different forms of corruption.

Parliament approved Anti-Corruption Law No. 29 of 2006, which established an 11-member Supreme National Authority for Combatting Corruption (SNACC) as an independent body with legal authority to fight corruption, track down corrupt officials and retrieve funds obtained through corrupt practices. SNACC is charged with drafting and executing anti-corruption policies and also receives financial disclosures from all senior government officials, as required

under the Financial Disclosure Law. SNACC can interrogate people involved in financial crimes and crimes of corruption and can refer these cases to the judiciary for prosecution. It also collects data and maintains a secret (and not releasable) corruption database for investigations and asset declarations. SNACC is required to submit a quarterly report to the President and Parliament on its activities. Yemen's Parliament elected 11 members to SNACC on June 25, 2007. On July 4, 2007, President Saleh signed a Republican Decree officially establishing SNACC and chaired SNACC's first meeting.

----- BILATERAL INVESTMENT AGREEMENTS -----

The US and Yemen signed a Trade Investment Framework Agreement in 2004. According to the General Investment Authority, Yemen signed three agreements in 2003 and one in 2004, bringing the total bilateral treaties to 35. Yemen has bilateral investment treaties with Algeria, Austria, Bahrain, Belarus, Belgium, Bulgaria, China, Djibouti, Egypt, Ethiopia, France, Federation of Russia, Germany, Hungary, India, Indonesia, Iran, Jordan, Kuwait, Lebanon, Malaysia, Morocco, the Netherlands, Oman, Pakistan, Qatar, South Africa, Sudan, Sweden, Syria, Tunisia, Turkey, the UAE, Ukraine, and the United Kingdom. Yemen has signed initial agreements regarding investment promotion with Croatia, Mongolia and

Romania but those agreements did not enter into force.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

Yemen and the United States signed an investment guarantee agreement in 1972. As of October 1997, OPIC and EXIM Bank provide guarantees for both private and public sector projects of short and medium duration (up to seven years). Yemen is a member of the Multilateral Investment Guarantee Agency (MIGA).

LABOR

The Yemeni government generally follows International Labor Organization (ILO) standards regarding labor laws and worker rights. In 1999 it ratified ILO conventions on the elimination of the worst forms of child labor and the minimum work age for employment. As in other areas, enforcement of labor laws is weak. Child labor is an issue of special concern. Some children work with their families in agriculture. To address this issue, the government signed an agreement to cooperate with the International Program on Elimination of Child Labor (IPEC) in 2000. After ratification of the ILO, the government established the Child Labor Unit at the Ministry of Social Affairs and Labor to implement and enforce child labor laws and regulations. Investors find the local pool of skilled labor for technology intensive ventures limited.

Yemen's overall illiteracy rate for persons age 15 and older is 50 percent (World Bank, September 2004), 28 percent for men and 68 percent for women. In 2005, the Ministry of Social Affairs and Labor estimated that Yemen needs at least 210 thousand new jobs annually to encounter the rapidly growing local labor force. There is no single confirmed number for the rate of unemployment in Yemen. There are conflicting reports from different government agencies about the rate of unemployment, but the Ministry of Social Affairs and Labor estimates the rate of unemployment for 2007 as 16 percent. Many local and international organizations estimate the rate of unemployment in Yemen to reach 35 percent or higher.

Those who complete secondary education and university studies in Yemen often do not possess the same professional standards as their counterparts from Western educational institutions. University graduates also experience difficulty finding appropriate employment and are sometimes unwilling to accept lower skilled jobs. The government is beginning to focus on increasing access to and improving the quality of vocational training as a means to develop a cadre of skilled laborers in high demand fields, including construction workers, medical technicians, electricians, plumbers and carpenters.

FOREIGN-TRADE ZONES/FREE PORTS

The Yemen Free Zone Public Authority was established in 1991 to develop the Aden Free Zone. Yeminvest, a joint venture between the Port of Singapore Authority (PSA) and the Bin Mohfoud Group of Saudi Arabia, was awarded the concession to develop the area. The government bought out the Yeminvest contract in October 2003 and Overseas Port Management is temporarily operating the Aden Container Terminal. In 2005, Dubai Port World (DPW) won a tender to become new operator for the Aden Container Terminal (ACT), but is awaiting approval of the bid from Parliament. Opened in September 1999, ACT logged steady growth through 2001. The October 2002 terrorist attack on the French oil tanker M/V Limburg caused shipping insurance premiums to raise 300 percent. As a result, ships were diverted to the ports of Djibouti and Salalah in Oman. Since the summer of 2003, shipping

insurance premiums have dropped to zero percent, as is standard in Dubai and other nearby ports. The port mainly serves as a transshipment hub, but attempts are being made to increase the percentage of the local cargo through the development of the industrial and warehousing estate.

In its first phase of development, ACT planned to handle up to one million Twenty-foot Equivalent Units (TEUs) annually on its two-berth, 700m quay. Those plans have been scaled back, and current capacity is 650,000 TEUs annually. The 35 hectare container yard can store 10,000 boxes. Yemen Ports Authority constructed a new 270-meter long and 12 meter deep dock assigned for unpacking the wheat-loaded vessels. The dock will alleviate burdens of the other seven docks in the port.

An industrial and warehousing estate called Aden District Park (ADP) was launched in November 2002. The Aden Container Terminal and the Aden Free Zone are promising areas for investment. Opportunities in light industry, repackaging and storage/distribution operations are welcomed. Future plans include development of heavy industry and more extensive tourist facilities in the greater Aden area.

Free zone incentives include 100 percent foreign ownership, no personal income taxes for non-Yemenis, and a corporate tax holiday for 15 years (renewable for 10 additional years), 100 percent repatriation of capital and profits, no currency restrictions, and no restrictions on, or sponsoring required, for the employment of foreign staff. Aden's main selling point is its strategic location) nine days steaming from Europe and seven from Singapore. It is four nautical miles off the main Far East - Europe sea route. For further information, contact: Free Zones Public Authority (AFZPA), (Main Center) P.O. Box 5842 Khormaksar, Aden, Republic Of Yemen, Telephones: 967-2-234484/5/6, Fax: 967-2-235-637, e-mail: Adenfz@Y.Net.Ye; Website: www.Aden-Freezone.Com

In May 2001, a new terminal at Aden International Airport was officially opened. In addition, a study was completed in August 2001 for future plans for the airport to include a duty free zone and cargo village to facilitate transit trade with the Aden Free Zone port facilities.

----- FOREIGN DIRECT INVESTMENT STATISTICS -----

According to the GIA, the foreign direct investment in Yemen for 2006 is approximately USD 861 million, 59 percent of total investment. Most U.S. investment in Yemen is in oil exploration, production and oil field services.

----- WEB RESOURCES -----

United States Embassy in Sanaa, Yemen:
<http://usembassy.state.gov/yemen/> The US Embassy website provides latest embassy news, reports, travel warnings, visa information, programs and events.

Export.gov: <http://www.export.gov/> Export.gov provides

online trade resources and one-on-one assistance for American businesses who would like to start or expand global sales.

13. End text of second section of Investment Climate Statement.

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